STEVE WESTLY
California State Controller

California Gives Automakers a Roadmap

By Steve Westly

As the Kyoto Protocol goes into effect today, it marks a major milestone in the world's efforts to address the serious threats of global warming. With the exception of the United States, every major industrialized country in the world will be subject to the accord.

There is no doubt that the risks from global warming are real and that the world's financial markets are changing to reflect these greater risks. The way companies respond to the new global regulatory environment will affect their long-term success.

Nowhere is this truer than in the automobile industry. The countries that have signed Kyoto represent more than 60 percent of new car sales in 2002. Although the U.S. government has not signed onto the agreement, many individual states are aggressively pursuing reductions in greenhouse gas emissions.

California has taken a lead role, adopting a greenhouse gas emission standard for vehicles that will take effect in 2009. The seven Northeastern states that already follow California's current emissions standards, including New York and Massachusetts, have indicated they intend to adopt the new rules. Together, these states represent more than 25 percent of all new car sales in the United States.

Unfortunately, automakers have resisted our new standards every step of the way. Last year they filed suit against the state to stop us from putting them into effect.

The California Public Employees' Retirement System and the California State Teachers' Retirement System own $1.55 billion in auto company stock. As a trustee to these funds – the nation's first and third largest public pension systems – I have an obligation to protect the long-term value of over two million retirees' investments. And, I want to make sure that automakers don't miss a clear shift in what the market wants - cleaner cars.

When auto manufacturers decided to divert their resources to legal battles, I began a shareholder campaign to move the world's auto manufacturers to innovate rather than litigate. I wanted to challenge constructively the industry to explain its rationale for investing in legal maneuvers rather than in new technology to produce clean vehicles.

The New York Common Retirement Fund ($123 billion in assets) quickly joined our shareholder coalition. Earlier this month, the trustees of CalSTRS also formally signed on. Now, the country's three largest public pension funds (with more than $2 billion invested in the automakers) are focused on this issue.

Regardless of your position on global warming, there is no doubt that the Kyoto Protocol and other efforts to curb greenhouse gas emissions will affect the way companies do business around the world. The companies that invest in new technologies will be best equipped to compete in the global markets of the future.

Along with other major shareholders, I hope to encourage automakers to focus on developing vehicles that can compete in the new carbon-constrained market rather than fight the inevitable. Tomorrow's global marketplace demands forward-thinking industries, not obstructionism.